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Incorporated, Kansas City  
Power & Light Company,  
KCP&L Greater Missouri  
Operations Company  
Case No.: EM-2018-0012  
Date Testimony Prepared: August 31, 2017

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. EM-2018-0012**

**DIRECT TESTIMONY**

**OF**

**DARRIN R. IVES**

**ON BEHALF OF**

**GREAT PLAINS ENERGY INCORPORATED,  
KANSAS CITY POWER & LIGHT COMPANY, AND  
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

August 2017

Applicant Exhibit No. 9  
Date 3/12/18 Reporter AB  
File No. EM-2018-0012

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**DIRECT TESTIMONY**

**OF**

**DARRIN R. IVES**

**Case No. EM-2018-0012**

1                   **I.       INTRODUCTION AND PURPOSE OF TESTIMONY**

2   **Q:     Please state your name and business address.**

3   A:     My name is Darrin R. Ives. My business address is 1200 Main Street, Kansas City,  
4         Missouri 64105.

5   **Q:     By whom and in what capacity are you employed?**

6   A:     I am employed by Kansas City Power & Light Company (“KCP&L”) and serve as Vice  
7         President – Regulatory Affairs for KCP&L and KCP&L Greater Missouri Operations  
8         Company (“GMO”).

9   **Q:     What are your responsibilities?**

10  A:     My responsibilities include oversight of the KCP&L’s Regulatory Affairs Department, as  
11         well as all aspects of regulatory activities including cost of service, rate design, revenue  
12         requirements, regulatory reporting and tariff administration, as well as Southwest Power  
13         Pool (“SPP”) matters.

14  **Q:     Please describe your education, experience and employment history.**

15  A:     I graduated from Kansas State University in 1992 with a Bachelor of Science in Business  
16         Administration with majors in Accounting and Marketing. I received my Master of  
17         Business Administration degree from the University of Missouri-Kansas City in 2001. I  
18         am a Certified Public Accountant. From 1992 to 1996, I performed audit services for the  
19         public accounting firm Coopers & Lybrand L.L.P. I was first employed by KCP&L in

1 1996 and held positions of progressive responsibility in Accounting Services and was  
2 named Assistant Controller in 2007. I served as Assistant Controller until I was named  
3 Senior Director – Regulatory Affairs in April 2011. I have held my current position as  
4 Vice President – Regulatory Affairs since August 2013.

5 **Q: Have you previously testified in a proceeding at the Missouri Public Service**  
6 **Commission (“Commission”) or before any other utility regulatory agency?**

7 A: Yes, I have testified a number of times before the Commission and the Kansas  
8 Corporation Commission (“KCC”). I have also provided written testimony before the  
9 Federal Energy Regulatory Commission (“FERC”) and have testified before legislative  
10 committees in Missouri.

11 **Q: On whose behalf are you testifying?**

12 A: I am testifying on behalf of Great Plains Energy Incorporated (“GPE” or “Great Plains”),  
13 KCP&L and GMO in this proceeding on the proposed merger (“Merger”) between GPE  
14 and Westar Energy Inc. (“Westar”) (collectively, the “Applicants”) to form a new  
15 combined company (“combined Company”, or “Holdco”, where appropriate).

16 **Q: What is the purpose of your testimony?**

17 A: The purpose of my testimony is to:

- 18 1) Describe savings that will accrue to customers as a result of (a) \$50 million in  
19 timely upfront bill credits, (b) the recognition of Merger savings in KCP&L’s and  
20 GMO’s cost of service in future rate cases, and (c) the delay of future KCP&L  
21 and GMO rate increases made possible by Merger savings that offset other utility  
22 cost increases while allowing the operating utilities to earn nearer their  
23 Commission authorized returns;

- 1           2)     Explain the need for rate cases in 2018 for both KCP&L and GMO to address  
2                     issues unrelated to the Merger;
- 3           3)     Describe how we have determined which generation-related savings are related to  
4                     the Merger;
- 5           4)     Present the Applicants' proposed set of Merger commitments and conditions  
6                     ("Merger Commitments and Conditions") that collectively ensure that (a) the  
7                     Merger will directly benefit customers, both immediately and over the longer  
8                     term; (b) customers will be protected from potential risks related to the Merger;  
9                     (c) the Merger will not be detrimental to the public interest; and (d) the  
10                    Commission's regulatory authority will be maintained.     The Merger  
11                    Commitments and Conditions can be found in Appendix H of the Application,  
12                    and for convenience are also attached to my direct testimony as Schedule DRI-1;  
13                    and
- 14          5)     Support the Applicants' application for a limited variance or waiver from  
15                    Commission Rule 4 CSR 240-20.015 on affiliate transactions ("Application for  
16                    Variance") being filed concurrently this date initiating this proceeding, and to  
17                    explain why good cause exists for the granting of the relief sought therein.

18   **Q:     How is the remainder of your testimony organized?**

19   A:     My Testimony is comprised of five Sections, following this Introduction:

- 20           ▪     **Section II** presents an overview or "Executive Summary" which summarizes the  
21                    key elements of my testimony.

- 1       ▪       **Section III** addresses customer benefits of the upfront bill credit, Merger savings  
2           in future rate cases, and savings from generation plant retirements, including  
3           retirements that are not attributable to the Merger.
- 4       ▪       **Section IV** presents the Applicants' proposed Merger Commitments and  
5           Conditions, and indicates how they work together to benefit and protect the  
6           interests of our customers and ensure Commission oversight.
- 7       ▪       **Section V** explains the Application for Variance and demonstrates why it is  
8           necessary and satisfies the Commission's standard for approval.
- 9       ▪       **Section VI** summarizes my conclusions.

10 **Q: What are the primary conclusions that the Commission should take away from your**  
11 **testimony?**

12 **A:** The primary conclusions are:

- 13       ▪       The Merger will result in significant, quantifiable monetary benefits to customers,  
14           including timely upfront bill credits and lower as well as less frequent rate  
15           increases in the future than would occur absent the Merger;
- 16       ▪       The Applicants have provided a comprehensive set of Merger Commitments and  
17           Conditions to ensure benefits for customers, protect against potential harm, and  
18           preserve Commission oversight;
- 19       ▪       The Application for Variance is necessary, consistent with Commission  
20           precedent, and should be approved.

1  
2 **II. EXECUTIVE SUMMARY**

3 **Q: Please describe the Applicants' commitment regarding the bill credits.**

4 A: The Applicants have committed to provide our retail electric customers (both Missouri  
5 and Kansas) with total upfront bill credits of \$50 million within 120 days of closing.  
6 These upfront bill credits will be greater than the net Merger savings that are expected be  
7 achieved in 2018 as presented in the testimony of Mr. Busser.

8 **Q: How will customers benefit from Merger savings beyond the upfront bill credits?**

9 A: In addition to the upfront bill credits, Merger savings will benefit customers in two  
10 primary ways: (1) lower rates in future rate proceedings, including the KCP&L and GMO  
11 rate proceedings nearly contemporaneous with the Merger, than would be the case absent  
12 the Merger, due to lower cost of service, and (2) delays in future rate increases, enabled  
13 by Merger savings that will be available to offset other utility cost pressures and  
14 continued infrastructure investments for which the Company would otherwise need to  
15 seek rate recovery.

16 **Q: What factors drive the need for KCP&L's and GMO's 2018 rate cases, and are  
17 these related to the Merger?**

18 A. KCP&L and GMO must file rate applications in 2018 to address issues unrelated to the  
19 Merger including: (1) a new customer information system and other infrastructure  
20 investments since rates were last set, and (2) smart meter technology deployment. These  
21 cost factors are independent of the Merger.

22 While the Merger will ultimately result in significant net savings, such savings  
23 will not ramp up quickly enough to offset these cost increases that KCP&L and GMO  
must continue to manage. That said, some Merger savings are anticipated in 2018 and

1 these initial Merger savings will be reflected in the cost of service of KCP&L and GMO  
2 in rate cases that will be filed and pending at the time of the expected Order in this  
3 Application. These savings will provide nearly immediate and ongoing reductions in our  
4 cost of service as compared to stand-alone operations absent the Merger.

5 **Q: Please explain the Applicants' plans to retire generation units, and which of these**  
6 **are related to the Merger.**

7 A: In June, KCP&L announced that it intends to retire generating units operated by KCP&L  
8 and GMO at Sibley, Montrose, and Lake Road.<sup>1</sup> Although these retirements will  
9 certainly create benefits for customers, they are independent of the Merger, and,  
10 accordingly, we have not included them in the expected Merger savings presented by Mr.  
11 Busser. However, the Merger will allow the combined Company to significantly  
12 accelerate the retirement of five Westar fossil fuel burning units at Gordon Evans,  
13 Murray Gill, and Tecumseh energy centers. Accordingly, savings from the acceleration  
14 of these Westar retirements are included in the Merger savings figures presented by Mr.  
15 Busser.

16 **Q: Please describe the Merger Commitments and Conditions that you are sponsoring.**

17 A: We have included an extensive and comprehensive list of Merger Commitments and  
18 Conditions.<sup>2</sup> The purpose of the Merger Commitments and Conditions is to collectively  
19 ensure that the Merger will directly benefit customers, both immediately and over the  
20 longer term, that customers will be protected from potential risks related to the Merger,

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<sup>1</sup> KCP&L Announcement June 2, 2017. <https://www.kcpl.com/about-kcpl/media-center/2017/june/kcpl-continues-sustainability-commitment-by-announcing-retirement-of-six-units-at-three-power-plants>

<sup>2</sup> See Application Appendix H and Schedule DRI-1.



1 that the Merger will not be detrimental to the public interest, and that the Commission's  
2 regulatory oversight will be maintained.

3 **Q: What was the Applicants' approach to developing the Merger Commitments and**  
4 **Conditions in this case?**

5 A: We started with the set of commitments and conditions that were proposed in the  
6 transaction presented to this Commission in EM-2017-0226 ("Initial Transaction").<sup>3</sup> We  
7 incorporated commitments and conditions included in the rebuttal testimony of the Joint  
8 Applicants and endeavored to address the testimony of Kansas Electric Power  
9 Cooperative, Inc. ("KEPCo") witness Dr. Dismukes in the KCC proceeding regarding the  
10 initial transaction.<sup>4</sup> Given the change in the Merger structure, the Applicants considered  
11 whether any changes to the prior set of commitments and conditions would be  
12 appropriate. For example, in the Initial Transaction proceeding, the Applicants addressed  
13 the capital structures used to establish rates in future rate cases.<sup>5</sup> Holdco's consolidated  
14 capital structure will ultimately be balanced in terms of long-term debt and equity capital.  
15 This result is significantly different than the Initial Transaction when consolidated GPE  
16 equity was forecasted to be 41 percent at close compared to 59 percent now for Holdco.  
17 As such, there is no request from the Applicants for a determination of a capital structure  
18 to be used for future rate cases.

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<sup>3</sup> See EM-2017-0226, Schedule DRI-4.

<sup>4</sup> See KCC Docket No. 16-KCPE-593-ACQ, Exhibit DRI-3.

<sup>5</sup> In the KCC initial transaction, the Applicants committed not to seek recovery of the acquisition premium in rates, but stipulated that they could do so in the event that other parties proposed that the capital structure used to calculate rates for an operating utility be the consolidated capital structure, rather than the capital structure of that subsidiary.<sup>6</sup> The Applicants will have incurred this category of costs prior to hearings in the instant case, and will not seek rate recovery of these costs.

1 **Q: Please summarize your testimony regarding the Application for Variance.**

2 A: The Commission's regulations include asymmetric pricing standards, which were  
3 designed to prevent cross-subsidization of non-regulated operations by the affiliated  
4 regulated utility. Application of the standard in this case would prevent the combined  
5 Company's three regulated utility affiliates after the closing of the Merger (KCP&L,  
6 GMO and Westar) from exchanging goods and services at cost. The requested variance  
7 is necessary to enable the attainment of savings post-Merger that will ultimately benefit  
8 customers of the combined Company's utility subsidiaries in Missouri and Kansas. This  
9 Application for Variance is reasonable, consistent with Commission precedent, and  
10 should be approved.

11 **III. SAVINGS TO CUSTOMERS**

12 **A. Customer Bill Credit Commitment**

13 **Q: Please describe the commitment to upfront bill credits.**

14 A: KCP&L, Westar, and GMO will provide upfront bill credits to all retail electric  
15 customers totaling \$50 million to be allocated across the Applicants' electric rate  
16 jurisdictions in both Kansas and Missouri within 120 days of the closing of the Merger.  
17 This is a demonstrable upfront savings benefit for customers from the Merger.

18 **Q: Please describe how the upfront bill credit will be allocated to customers.**

19 A: This \$50 million will be allocated among Applicants' electric rate jurisdictions in both  
20 Kansas and Missouri based on the proportion of jurisdictional retail megawatt-hour sales  
21 for the quarter-ending twelve-month period prior to the closing, which we expect to be  
22 year-end 2017 or first quarter 2018. As to how this amount will be allocated among  
23 customer classes and ultimately credited to individual customers, we plan to work with

1 Staff, the Office of the Public Counsel (“OPC”), and the other parties to the proceeding to  
2 develop an appropriate methodology for Commission approval.

3 **Q: Will the Applicants have realized net savings of \$50 million by the time they plan to**  
4 **issue the upfront bill credits?**

5 A: No. The Applicants are providing the credits prior to achieving a corresponding amount  
6 of savings. The upfront bill credits are a separate and additional benefit the Applicants  
7 are providing in addition to the net savings that will be reflected in future rate cases.  
8 These future cases, the first of which we expect will be pending when the Commission  
9 issues its order in this docket, will also include test year savings created in anticipation of  
10 the Merger for both companies. The bill credits will be applied to customer bills within  
11 120 days of the closing; Merger savings will be fully reflected in the amount realized and  
12 reflected in the test year utilized to establish the utilities’ cost of service in future rate  
13 cases.

14 As stated above, the upfront bill credits ensure that the Merger will result in near-  
15 term benefits for customers. They also reflect the Applicants’ commitment that the  
16 Merger provide meaningful near-term and long-term economic benefits to customers.

17 **B. Recognition of Savings in Future Rate Cases**

18 **Q: How will savings from the Merger be recognized in future rate cases?**

19 A: As is discussed in detail by Mr. Busser, the Merger will result in significant savings, with  
20 approximate annual projections of net savings for the years 2018 through 2022 of: \$28  
21 million, \$110 million, \$144 million, \$150 million, and \$160 million, respectively. These  
22 Merger savings will be fully reflected in the amount realized and reflected in the test year  
23 utilized to establish the utilities’ cost of service for future rate cases. This will result in

1 future rate increases being lower than would be the case absent the Merger. Further,  
2 lower utility costs as a result of these savings will allow KCP&L and GMO to delay  
3 future rate increase requests, by offsetting other utility cost of service pressures and the  
4 cost of needed infrastructure investments, which will result in lower customer bills than  
5 would be possible without the Merger. I further explain these dynamics below.

6 **Q: Please explain the terms “transition costs,” “net savings,” and “transaction costs.”**

7 A: Transition costs are costs necessary to integrate Westar and Great Plains. These costs are  
8 necessary to create the Merger efficiencies and savings and ensure that the post-Merger  
9 integration process is effective. Transition costs unlock the savings of the Merger.  
10 Examples of transition costs include voluntary severance, other than change-in-control  
11 severance, costs incurred in integration planning as well as costs incurred to enable  
12 network connectivity for the merged company and allow for a more efficient combined  
13 company. Transition costs are netted against gross savings to calculate and present net  
14 savings.

15 Transaction costs refer to those costs necessary to support efforts to evaluate,  
16 negotiate and complete a transaction and the associated transaction agreements through  
17 and including approval of the transaction. Transaction costs include, but are not limited  
18 to, those costs relating to obtaining regulatory approvals, development of transaction  
19 documents, investment banking costs, costs related to raising equity incurred prior to the  
20 close of the Merger, change-in-control severance payments, internal labor and third party  
21 consultant costs incurred in performing any types of analysis or preparation (financial,  
22 tax, investment, accounting, legal, market, regulatory, etc.) to evaluate the potential sale  
23 or transfer of ownership, prepare for bid solicitation, analyze bids, and conduct due

1 diligence. Such costs also include compliance with existing contracts, including change  
2 in control provisions, and compliance with any regulatory conditions, closing costs, and  
3 communication costs regarding the ownership change with customers and employees.  
4 The costs associated with unwinding the debt financing from the Initial Transaction are  
5 also transaction costs.<sup>6</sup>

6 **Q: Are the Applicants asking the Commission to allow recovery of transaction costs in**  
7 **KCP&L's or GMO's revenue requirements?**

8 A: No. The Applicants will not seek recovery of transaction costs in rates. The Applicants  
9 will have the burden of proof to clearly identify where all transaction costs related to this  
10 Merger are recorded and will be required to attest in all future rate proceedings before the  
11 Commission that none of these costs are included in cost of service and rates. They will  
12 provide an explanation of the procedures used to ensure that these transaction costs are  
13 not included in cost of service or rates. The Applicants propose that the obligations of  
14 this commitment shall continue until transaction costs of this Merger are no longer on  
15 Holdco's books in a test year for KCP&L and/or GMO, as applicable.

16 **Q: What is the Applicants' proposal regarding rate recovery of transition costs?**

17 A: In future rate cases, the Applicants expect to request Commission authorization to defer  
18 any transition costs incurred to that point and to recover an amortized amount of such  
19 transition costs over an appropriate period, provided that demonstrated Merger savings  
20 (*i.e.*, revenue requirement reductions) exceed the requested recovery of transition costs.  
21 These transition costs are necessary to produce the realized Merger savings which will

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<sup>6</sup> The Applicants will have incurred this category of costs prior to hearings in the instant case, and will not seek rate recovery of these costs.

1 benefit customers in the form of lower revenue requirements and lower rates in future  
2 rate cases than would be the case absent the Merger.

3 This proposal is consistent with the traditional treatment granted by the  
4 Commission for such costs.<sup>7</sup> For example, if KCP&L or GMO were to implement an  
5 early retirement plan resulting in a lower salary expense going forward, the costs of the  
6 plan would be considered legitimate costs to include in the revenue requirement  
7 calculation. The fact that such reduced revenue requirement will be enabled by the  
8 Merger should not change that ratemaking treatment.

9 **Q: Is amortization the appropriate and typical ratemaking convention for such  
10 (primarily one-time) costs that enable ongoing savings?**

11 A: Yes. Consistent with our request, generally the Commission would consider some  
12 amortization period when setting revenue requirements and rates. As long as the  
13 amortization period is fair and reasonable, the Applicants support deferral and  
14 amortization of such one-time costs incurred to unlock Merger savings for customers.

15 **Q: What are the ways that the Merger savings benefit customers, yet also benefit the  
16 combined Company and its owners?**

17 A: The Merger allows us to serve our customers more efficiently and realize Merger savings.  
18 Those savings provide a credit or offset to the cost of service and revenue requirement  
19 used to set utility rates absent the Merger. That means the utilities can earn near their

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<sup>7</sup> See, for example, *Stipulation and Agreement, Re: Southern Union d/b/a Missouri Gas Energy, The Laclede Group, and Laclede Gas Company*, Case No. GM-2013--0254, pp. 9-10 and Attachment 1 (filed July 2, 2013) (approved July 17, 2013); and *Report And Order, Re Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc. for Approval of the Merger of Aquila*, Case No. EM-2007-0374, pp. 240-41 (July 1, 2008).

1 revenue requirement while addressing other cost of service pressures and the cost of  
2 making needed infrastructure investments without having to raise rates as frequently.  
3 The Merger benefits customers in three distinct ways, and also benefits the combined  
4 Company and its owners.

5 First, customers benefit from the \$50 million in upfront bill credits. But for the  
6 Merger and the confidence we have in the savings it will produce, we would not be  
7 financially able to offer customers millions of dollars in guaranteed upfront bill credits –  
8 even before we realize that same level of savings in our cost structure.

9 Second, customers benefit from rates that are lower than they would pay absent  
10 the Merger. As we create efficiencies and realize savings, those savings reduce our  
11 utilities' cost of service. The lower costs result in more favorable test year revenue  
12 requirements, such that in resetting rates, customers realize the savings in the rates they  
13 ultimately pay.

14 Third, customers benefit from a delay in future rate cases as the utilities are able  
15 to use Merger savings between rate cases to offset cost of service increases and the cost  
16 of needed infrastructure investment. This allows the utilities to earn near their authorized  
17 returns without requiring rate increases to address rising costs.

18 **Q: Please explain how net Merger savings will (1) be directly reflected in customers'**  
19 **rates through rate cases, and (2) offset cost increases and cost of infrastructure**  
20 **investments between rate cases.**

21 **A:** To demonstrate the distribution of net Merger savings to customers over the first twenty  
22 years after close of the Merger, I have developed an illustrative example of customer  
23 benefits over the twenty-year period.

1           Table 1, shown below, presents an illustrative quantification of how the net  
2 Merger savings would be reflected in customers' rates and would be used to defer  
3 otherwise necessary rate increases over a 20-year period. The illustration presented in  
4 this table is based on the following assumptions:

- 5           ▪     The \$50 million upfront bill credit total is a cost to the utilities and benefit to  
6           customers. This reflects that the Applicants will not net this amount against the  
7           achievement of net savings. The bill credit is an incremental benefit for  
8           customers beyond the Merger savings.
- 9           ▪     KCP&L and GMO in Missouri will have rate proceedings in 2018, to establish  
10          new rates projected in the financial plan on November 1, 2018 for KCP&L and  
11          GMO, for simplicity of the illustration. These rates will be based on a historic  
12          test year of the twelve-months ended June 2017 as updated. The illustration  
13          reflects expected realized Merger savings as benefits to customers through rates  
14          determined in the 2018 cases.
- 15          ▪     While impossible to predict with absolute certainty today, this table assumes, that,  
16          following the 2018 rate proceedings, the operating utilities will not have their next  
17          Missouri rate cases until 2022, with a historic test year of the twelve-months  
18          ended June 2021, for new rates effective November 1, 2022 for KCP&L and  
19          GMO.
- 20          ▪     The table reflects customer benefits from the removal of a Westar abbreviated rate  
21          case that is reflected in Westar's standalone financial plan with rates effective  
22          September 2020.



- 1       ▪       It is assumed that KCP&L and GMO rate cases in Missouri will have four years  
2               between rate cases consistent with filing requirements to retain their fuel  
3               adjustment clauses. A period of five years between Kansas rate cases is assumed  
4               following 2023 through the end of the 20-year period.
- 5       ▪       Between rate cases, net savings are used to offset increases in the cost of service  
6               and support needed infrastructure investments and allow the utilities to earn close  
7               to their authorized returns without having to file for a rate review. Net savings are  
8               “passed” to customers in a rate case through a lower cost of service, which is the  
9               basis of rates, by the amount of the net savings in the test year.
- 10      ▪       The incremental impact is Merger-related net savings only; it does not include  
11             other elements of utility costs or rates.
- 12      ▪       The table reflects annual net savings, *i.e.*, gross savings minus transition costs.
- 13      ▪       Five years of net savings are shown for 2018-2022, reflecting the net savings  
14             presented by Mr. Busser.
- 15      ▪       For the years after 2022, it is assumed for simplicity in this illustration that no  
16             additional savings are achieved. However, operations and maintenance (“O&M”)  
17             cost savings are escalated by an O&M inflation factor of 2.4 percent annually  
18             after 2022.
- 19      ▪       Once net savings are reflected in rates, the utilities retain no further portion of the  
20             net savings passed to customers to offset future rate cases. Ultimately, all savings  
21             are reflected in rates once addressed in a rate case.
- 22      ▪       The table reflects payments by the Applicants of a total of \$57.6 million in  
23             transition costs in 2016 through 2018.

1           ▪       The table reflects the Applicants’ expected request to defer transition costs in rate  
2 cases and recovery over an amortization period covering the timeframe between  
3 rate cases portrayed in the table. Because the Applicants are not requesting  
4 deferral of transition costs until future rate cases, amounts are considered a cost to  
5 the utilities when incurred and then reflected as a cost to customers and return to  
6 the utilities when recovered through future amortization.

7                                   **Table 1: Illustrative Net Merger Savings Distribution**

<b>Illustrative Net Savings Distribution</b>						
<b>Great Plains Energy and Westar Energy Proforma Combined (amounts in millions)</b>						
Year #	Year	Gross Savings	Transition Costs	Net Savings	Net Savings Distribution	
					Customers	Utilities
	2016-2017	\$ -	\$ (35.6)	\$ (35.6)	\$ -	\$ (35.6)
1	2018	49.7	(21.9)	27.8	53.5	(25.7)
2	2019	116.9	(6.6)	110.3	36.8	73.5
3	2020	146.5	(3.0)	143.5	47.5	95.9
4	2021	151.9	(2.6)	149.3	66.2	83.1
5	2022	162.0	(2.2)	159.9	73.4	86.4
6	2023	165.5	-	165.5	111.6	53.9
7	2024	169.1	-	169.1	159.4	9.7
8	2025	172.8	-	172.8	161.3	11.5
9	2026	176.6	-	176.6	162.2	14.3
10	2027	180.4	-	180.4	166.9	13.5
11	2028	184.4	-	184.4	169.0	15.4
12	2029	188.4	-	188.4	180.7	7.8
13	2030	192.6	-	192.6	182.4	10.2
14	2031	196.8	-	196.8	187.6	9.3
15	2032	201.2	-	201.2	187.6	13.6
16	2033	205.6	-	205.6	188.1	17.5
17	2034	210.2	-	210.2	200.9	9.3
18	2035	214.9	-	214.9	207.4	7.5
19	2036	219.6	-	219.6	207.4	12.2
20	2037	224.5	-	224.5	207.4	17.1
<b>Totals</b>		<b>\$ 3,529.9</b>	<b>\$ (71.8)</b>	<b>\$ 3,458.0</b>	<b>\$ 2,957.4</b>	<b>\$ 500.6</b>
<b>NPV at 7.50%</b>				<b>\$ 1,580</b>	<b>\$ 1,276</b>	<b>\$ 305</b>
<b>NPV Distribution of Net Savings</b>					<b>81%</b>	<b>19%</b>

8

1 **Q: What is the main conclusion illustrated by Table 1?**

2 A: In addition to the \$50 million in upfront bill credits, all Merger savings serve to reduce  
3 the cost of service and to delay rate increases that would be required absent the Merger.  
4 Based on the assumptions used in Table 1 and using a 7.5 percent discount rate to  
5 determine the net present value of benefits, 81 percent of benefits accrue to customers,  
6 and 19 percent are used between rate cases to reduce the utilities' under earning of  
7 allowed returns and offset increases in the cost of service and cost of making necessary  
8 infrastructure investments. Applying different assumptions could change the resulting  
9 percentages somewhat, but they would not change the basic conclusion that there are  
10 significant demonstrable benefits to customers over time from the \$50 million upfront bill  
11 credit and the favorable effects of the Merger savings as an offset to the cost of service in  
12 future rate cases.

13 **Q. How can the Merger contribute to delaying a rate increase?**

14 A: As shown in the analysis by Mr. Busser, the Applicants expect to achieve significant  
15 Merger-related net savings over the period of 2018-2022. During this period, KCP&L  
16 and GMO will experience cost increases in other areas of their business operations and  
17 will make capital investments which are not reflected in revenue requirements. KCP&L  
18 and GMO will use Merger savings to offset these other cost pressures, and therefore be  
19 able to delay filing future rate cases. The assumption in Table 1 that KCP&L and GMO  
20 will not need to file a rate case for rates to be effective in Missouri until 2022 is enabled  
21 by the achievement of the Merger-related savings. Avoided or delayed rate increases are  
22 just as real in providing lower bills for customers as lower rate increases in rate cases.

1 **Q: How will the net Merger savings produced between rate cases contribute to returns?**

2 A: The net Merger savings in the early years after the Merger closes and after the 2018 rate  
3 cases will allow KCP&L and GMO a better opportunity between rate cases to earn their  
4 authorized returns. Absent such savings, the utilities might have to file for rate increases  
5 due to a revenue deficiency. This application of Merger savings by the utilities is not  
6 expected to produce regulated returns in excess of authorized returns; however, if that  
7 ever were to occur, parties could petition that rates should be reduced to ensure that all  
8 savings appropriately benefit customers in the rates they pay while still appropriately  
9 allowing the utilities an opportunity to earn near their authorized returns.

10 **C. The Need for Rate Cases in 2018**

11 **Q: Please describe the factors that drive the need to file rate cases in the 2018.**

12 A: There are several factors that drive the need for near-term rate cases. KCP&L and GMO  
13 plan to file rate cases primarily to recover the costs of a new customer information  
14 system and other infrastructure investments since its last rate case. Irrespective of the  
15 Merger, these circumstances cause KCP&L and GMO to experience revenue deficiencies  
16 and contribute to the need for a rate case. Merger savings are likely to defer the need for  
17 future rate cases, and savings in anticipation of the Merger will have a favorable effect on  
18 these first rate cases; however, Merger savings will not be realized in time or at a  
19 sufficient level to defer the 2018 rate cases.

20 **D. Retirement of Generation Units**

21 **Q: What plans do KCP&L, GMO, and Westar have to retire generation units?**

22 KCP&L has publicly announced its intention to retire five coal-fired units and one natural  
23 gas unit across KCP&L and GMO at the Sibley, Montrose, and Lake Road generating

1 plants either in 2018 or 2019. These units will be between 49 and 57 years old upon  
 2 retirement and will have served customers well for decades, years longer than expected  
 3 when the plants were first placed in service. Details of these units are included in Table  
 4 2.

<b>Table 2: Planned KCP&amp;L and GMO Generation Retirements</b>				
<b>Generating Unit</b>	<b>Capacity</b>	<b>Type</b>	<b>In-service</b>	<b>Retire by</b>
Lake Road 4/6	97 MW	Natural Gas	1967	Dec. 31, 2019
Montrose 2	164 MW	Coal	1960	Dec. 31, 2018
Montrose 3	176 MW	Coal	1964	Dec. 31, 2018
Sibley 1	48 MW	Coal	1960	Dec. 31, 2018 <sup>8</sup>
Sibley 2	51 MW	Coal	1962	Dec. 31, 2018
Sibley 3	364 MW	Coal	1969	Dec. 31, 2018

5 Prior to the Merger, Westar planned to retire five generating units between 2023  
 6 and 2028. Table 3, below, identifies the Westar units, their capacity, fuel type, in-service  
 7 data, and planned retirement dates. These units will be between 51 and 62 years old upon  
 8 retirement and will also have served customers decades longer than first envisioned.

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<sup>8</sup> GMO retired Sibley 1 in June 2017 for operational reasons.

<b>Table 3: Planned Westar Generation Retirements</b>				
<b>Generating Unit</b>	<b>Capacity</b>	<b>Type</b>	<b>In-service</b>	<b>Retire by</b>
Gordon Evans 1	152 MW	Gas	1961	2028
Gordon Evans 2	372 MW	Gas	1967	2028
Murray Gill 3	93 MW	Gas	1956	2025
Murray Gill 4	90 MW	Gas	1959	2025
Tecumseh 7	70 MW	Coal	1957	2023

1 **Q: What is the impact of the Merger on these retirement dates?**

2 These retirements of the KCP&L and GMO units will provide cost savings for customers,  
3 but are not affected by the Merger. These retirement dates will not change due to the  
4 Merger and are not included in the efficiencies presented as Merger savings.

5 However, if the Merger is approved, the retirement of the Westar units will be  
6 accelerated and will occur after the peak summer season in 2018, *i.e.*, in a range of 5-10  
7 years earlier than anticipated for Westar absent the Merger. Because these retirements  
8 will be significantly accelerated by the Merger, these efficiencies have been included as  
9 Merger savings.

10 **Q: How did the Applicants determine the impacts of the Merger on these retirements?**

11 A: The Applicants conducted a combined integrated resource plan (“IRP”) process. The  
12 analysis we conducted is similar to that which KCP&L conducts for its standalone IRP  
13 filed in Missouri.<sup>9</sup> The analysis demonstrates that these Westar plants can be retired  
14 following the peak summer season in 2018 without negatively impacting cost to serve  
15 customers or Westar’s ability to meet the reserve requirements established by SPP and

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<sup>9</sup> Anti-trust law restrictions preclude an exchange of certain information such as confidential market-sensitive fuel price forecasts prior to the consummation of the Merger. This does not impact the decision quality of these results.

1 that the accelerated retirements result in the least cost option on a net present value of  
2 revenue requirements basis for customers over the 20-year planning horizon.

3 **Q: What are the expected savings from these plant retirements?**

4 A: The savings from these retirements are reflected in the financial model as described by  
5 Mr. Somma. The Merger-related savings from accelerating the retirement of the Westar  
6 units are forecast to be \$55.4 million over the first five years after the Merger closes. As  
7 these savings are significantly enabled by the Merger, the Applicants included them in  
8 their calculation of Merger savings.

9 As discussed by Mr. Busser, the Applicants forecast savings associated with the  
10 retirement of the KCP&L and GMO units to be \$222.6 million over the first five years  
11 following the Merger close. As these retirements are not related to the Merger, these  
12 savings are not included in the estimates of the Merger savings. However, as discussed  
13 by Mr. Somma in his direct testimony, these expected savings from KCP&L and GMO  
14 generating unit retirements are savings that will benefit the companies and their  
15 customers and are reflected in the combined Company's pro forma five-year financial  
16 forecast.

17 **Q: Will savings from the KCP&L, GMO and Westar retirements be treated differently**  
18 **in terms of how the savings benefit customers in the rates they pay?**

19 A: No. The savings will benefit customers in the same manner. Savings from these  
20 retirements will result in lower revenue requirements and rate requests than would  
21 otherwise be the case when KCP&L, GMO and Westar file future rate cases. Just as with  
22 the full set of Merger savings, they contribute to enabling KCP&L, GMO and Westar to  
23 delay future rate increases. The total Merger and non-Merger related net savings from

1 these retirements are forecast to be \$278 million over the first five years following the  
2 Merger.<sup>10</sup> Whether these savings are specifically attributable to the Merger or not,  
3 customers will ultimately receive the benefits.

4 **Q: Will the Merger have a positive impact on the environment?**

5 A: Yes. KCP&L, GMO and Westar have been strong environmental stewards, and the  
6 Applicants intend to continue with the environmental plans and programs of the utilities  
7 upon approval of the Merger. Of course, the federal Environmental Protection Agency  
8 and Missouri Department of Natural Resources will retain their full authority to regulate  
9 our operations. Because Missouri and Kansas are premiere locations in the United States  
10 for the siting of wind power, the Merger may enable the future construction of additional  
11 wind generation in the region. A significant portion of such additional wind generation  
12 could be used to serve both Kansas and Missouri customers. In addition, the retirement  
13 of 780 MW of fossil-fuel generation will be accelerated because of the Merger. Both of  
14 these outcomes will decrease emissions and provide positive impacts on the environment.  
15 Moreover, because of its greater financial strength compared to GPE or Westar on a  
16 standalone basis, the combined Company will have greater flexibility to expand its  
17 renewable generation in the future. Finally, KCP&L and GMO have been leaders in their  
18 efforts to promote energy efficiency. This includes rate design and demand side  
19 management/energy efficiency efforts and programs which will be shared with Westar.  
20 For all of these reasons, but most specifically, the acceleration of the retirement of  
21 780MW of Westar's fossil-fueled generation, which is made possible by the recent

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<sup>10</sup> Busser Direct Testimony.



1 increases, and potential for additional increases in renewable energy, the Merger would  
2 have an additional positive impact on the environment.

#### 3 IV. MERGER COMMITMENTS AND CONDITIONS

##### 4 A. Approach to Merger Commitments and Conditions

5 **Q: Please describe the Applicants' general approach regarding Merger Commitments**  
6 **and Conditions.**

7 A: In developing the Commitments and Conditions, the Applicants started with the  
8 commitments and conditions that we ultimately proposed in the Initial Transaction.<sup>11</sup>  
9 That list combines the vast majority of the commitments and conditions included in the  
10 rebuttal testimonies of the Applicants and reflects many recommendations of KEPCo in  
11 the KCC Initial Transaction. As we made clear in that earlier case, we were willing to  
12 adopt many of the commitments and conditions proposed by intervenors.<sup>12</sup> Our approach  
13 remains the same in this amended Merger. We have also considered whether individual  
14 commitments and conditions are no longer relevant given the amended structure of the  
15 Merger, and whether additional commitments and conditions should be considered. For  
16 example, as described above, we eliminated conditions related to determination of  
17 ratemaking capital structures, as the Amended Merger Agreement does not involve debt  
18 financing and Holdco will have a balanced capital structure similar to those in place for  
19 Westar, KCP&L and GMO. In the end, we have proposed a full and robust set of Merger  
20 Commitments and Conditions, which witness John Reed describes as exceeding the

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<sup>11</sup> See EM-2017-0226, Schedule DRI-4.

<sup>12</sup> See EM-2017-0226, Schedule DRI-4.<sup>13</sup> Westar is the largest Kansas jurisdictional electric utility and is subject to the jurisdiction of the KCC. Neither Westar nor any of its affiliates is a public utility in Missouri.

1 typical commitments and conditions for such an equity-only merger of equals with  
2 adjacent service territories.

3 **Q: What is the purpose of the Merger Commitments and Conditions?**

4 A: The purpose of the Commitments and Conditions is to collectively ensure that the Merger  
5 will directly benefit customers, both immediately and over the longer term, that  
6 customers will be protected from potential Merger related risk, that the Merger will not  
7 be detrimental to the public interest, and that the Commission's regulatory oversight will  
8 be maintained.

9 **B. Overview of Merger Commitments and Conditions**

10 **Q: What Commitments and Conditions are the Applicants proposing as part of the**  
11 **Application requesting Commission approval of the Merger?**

12 A: The Applicants are proposing an extensive set of Commitments and Conditions, which  
13 are detailed in Appendix H to the Application and included in my direct testimony  
14 Schedule DRI-1. The Commitments and Conditions are grouped into the following broad  
15 categories:

16 I. General Conditions

17 II. Employee Commitments

18 III. Financing and Ring-fencing Conditions

19 IV. Ratemaking, Accounting and Related Conditions

20 V. Affiliate Transactions and Cost Allocations Manual Conditions

21 VI. Quality of Service Conditions

22 VII. Reporting and Access to Records Conditions

23 VIII. Other Parent Company Conditions

1 **I. General Conditions**

2 **Q: Please provide an overview of the general conditions.**

3 A: The general conditions address the location and staffing levels of headquarters (No. 1),  
4 company leadership (No. 2), local charity giving, community involvement, and corporate  
5 social responsibility (Nos. 3, 5), and the maintenance and promotion of low-income  
6 programs (No. 4). Collectively, they acknowledge that KCP&L, GMO and Westar have  
7 been and will continue to be major participants in local economies as employers and  
8 community leaders that provide meaningful resources.

9 **II. Employee Commitments**

10 **Q: Please provide an overview of the employee commitments.**

11 A. These commitments give our valued employees important assurances and reflect the  
12 important role of KCP&L and Westar as large employers in Missouri and Kansas.

13 We set out our commitments to achieve reductions in payroll cost through  
14 attrition or voluntary programs, with no involuntary severance, including at certain  
15 generating facilities, and to do so in a generally balanced manner between Kansas and  
16 Missouri (No. 8), to honor existing collective bargaining agreements (No. 6), and to  
17 maintain substantially comparable compensation levels and benefits for all employees  
18 (No. 7).

19 **III. Financing and Ring-Fencing Conditions**

20 **Q: Please provide an overview of the financing and ring-fencing conditions.**

21 A: The financing and ring-fencing conditions ensure that the financial condition of the  
22 combined Company does not have any adverse impact on KCP&L, GMO or Westar, and  
23 preserves a separation between KCP&L, GMO and Westar for both financial and

1 governance purposes. They establish commitments to maintain separate capital  
2 structures, debt instruments, and credit ratings among Holdco, KCP&L, GMO and  
3 Westar, and – except for longstanding and approved guarantees between Westar and its  
4 subsidiaries – prohibit the utilities from guaranteeing the debt of other affiliates or  
5 pledging stock of an affiliate as collateral for the obligations of another entity, unless  
6 otherwise authorized by the Commission.

7 These conditions also address the structure and membership of the Holdco board  
8 of directors, including leadership of standing board committees (No. 9), and a  
9 commitment to maintain the financial integrity of Westar, KCP&L and GMO (No. 10).  
10 They ensure that Holdco, Westar, KCP&L and GMO will maintain separate capital  
11 structures, including separate debt and preferred stock (if any), will maintain investment-  
12 grade capital structures, and will maintain levels of debt in capital structures below stated  
13 maximums (Nos. 11, 12). The Applicants commit to maintain separation of the assets of  
14 the affiliated companies unless otherwise authorized by the Commission (Nos. 13, 14).

15 These conditions recognize the importance of strong credit metrics and financial  
16 ratios, as well as the commitment to maintaining separate issuer and issue credit ratings  
17 (No. 15). In the unlikely event either KCP&L or GMO were ever to experience a credit  
18 rating downgrade to below investment grade level, the conditions set out specific notice  
19 and reporting requirements to be given to the Commission and steps to be taken in  
20 response to the downgrade, including treatment of the downgrade in future rate cases to  
21 ensure that customers are not detrimentally affected (No. 16).

22 The Applicants commit not to seek an increase to their cost of capital because of  
23 the Merger or because of their ongoing affiliation with the combined Company or each

1 other. If either KCP&L or GMO seeks an increase in its cost of capital, the conditions  
2 state how such a request is to be supported in evidence to establish that it is not a result of  
3 the Merger or dealings with the other affiliated entities (No. 17).

4 **Q: Do other Applicant witnesses address these financing and ring-fencing conditions in**  
5 **detail?**

6 A: Yes. Mr. Reed addresses these conditions in detail, and I refer to his direct testimony for  
7 that important discussion.

8 ***IV. Ratemaking, Accounting and Related Conditions***

9 **Q: Please provide an overview of the ratemaking, accounting, and related conditions.**

10 A: The ratemaking, accounting, and related conditions provide customers with Merger  
11 savings while protecting them from potential adverse outcomes. They explicitly commit  
12 and document that the utility subsidiaries will not recover any Merger goodwill or  
13 transaction costs, including change in control severance costs, or termination fees  
14 associated with the transaction. These conditions address concerns regarding the impact  
15 of the Merger on future rates.

16 Pursuant to these conditions, the Applicants will provide all Missouri and Kansas  
17 retail electric customers with bill credits totaling \$50 million within 120 days of the  
18 closing the Merger (No. 18).

19 Neither KCP&L nor GMO will seek to recover transition costs that are in excess  
20 of corresponding benefits. While Applicants expect to request that transition costs be  
21 deferred on the books of KCP&L and GMO and considered for recovery over an  
22 appropriate amortization period in their future rate cases, the burden of proving that such  
23 costs are appropriate for inclusion in rates is on the utility, including evidence that

1 benefits to customers exceed the corresponding requested recovery of transition costs  
2 (No. 19).

3 The Applicants commit that goodwill from the Merger will stay on the books of  
4 Holdco and will not negatively affect KCP&L's or GMO's cost of capital, and will not be  
5 included in the revenue requirement of KCP&L or GMO in future rate cases (No. 20).  
6 Should impairment of the Merger goodwill occur and potentially impact the utilities,  
7 rates will be adjusted as needed to remove the effect of any impairment (No. 21).

8 The Applicants will record transaction costs on the books of the Holdco, and will  
9 not seek recovery of transaction costs in rates (No. 22). KCP&L's and GMO's fuel and  
10 purchased power costs shall not be adversely impacted by the Merger, and customer retail  
11 rates shall not increase because of the Merger (Nos. 23, 24). In future rate cases, KCP&L  
12 and GMO will demonstrate adherence to these commitments with appropriate analysis,  
13 testimony, and other documentation (No. 25).

14 **V. Affiliate Transactions and Cost Allocation Manual ("CAM") Conditions**

15 **Q: Please provide an overview of the affiliate transaction and CAM conditions.**

16 **A:** These affiliate transactions and CAM conditions provide assurances that future regulation  
17 by the Commission will continue to be effective post-Merger and that customer rates will  
18 not increase due to intercompany charges after the Merger close.

19 KCP&L and GMO will continue to be operated after the Merger in compliance  
20 with the Commission's affiliate transaction rules, including not providing preferential  
21 service, information, or treatment to an affiliated entity over another party (Nos. 26, 28).  
22 All information related to an affiliate transaction charged to KCP&L and/ or GMO will  
23 be treated in the same manner as if it were under the control of KCP&L or GMO (No.

1 27). KCP&L, GMO and Westar will seek recovery of intercompany charges in their first  
2 base rate proceedings filed post-Merger at levels equal to the lesser of actual costs or the  
3 costs allowed for such function in their most recent rate case prior to the closing of the  
4 Merger (No. 29).

5 The Applicants also commit to maintain separate books and records, which will  
6 be available to the Commission and its Staff and which will allow the audit of the  
7 allocation of centralized corporate costs (No. 30). Holdco, KCP&L, and GMO agree to  
8 an independent audit of corporate cost allocations and affiliate transaction protocols (No.  
9 31). KCP&L and GMO agree to comply with Commission directives related to the  
10 protection of customer information from affiliated or non-affiliated entities (No. 32).  
11 KCP&L and GMO will meet with Staff and OPC no later than 60 days after the closing  
12 of the Merger to provide information regarding adjustments to KCP&L's and GMO's  
13 CAMs and agree to file updates to the CAMs within a specified time frame (No. 33).

14 **VI. Quality of Service Conditions**

15 **Q: Please provide an overview of the quality of service conditions.**

16 **A:** The service quality conditions reflect the Applicants' commitment that service quality  
17 will be maintained or improved as a result of the Merger. These conditions also include  
18 the provision of key service quality data and information at established time intervals to  
19 Staff, as well as meetings with Staff regarding customer service.

20 KCP&L and GMO commit to strive to meet or exceed the customer service and  
21 operational levels currently provided to their Missouri retail customers; will continue to  
22 provide service quality data to Staff on a monthly basis; and will provide Staff on a  
23 twice-yearly basis customer survey response information (No. 34). KCP&L and GMO

1 will meet with Staff on a periodic basis after the close of the Merger to review service  
2 quality performance, and will provide Staff on a 6 monthly basis a current organizational  
3 chart illustrating the names and positions of management employees that have customer  
4 service responsibilities (Nos. 35, 36).

5 ***VII. Reporting and Access to Records and Parent Company Conditions***

6 **Q: Please provide an overview of these conditions.**

7 A: These conditions help ensure that the Commission and its Staff have the information  
8 needed to perform future audits, to stay abreast of important developments at the utilities,  
9 and to protect utility customers pursuant to the Commission's statutory charge.

10 KCP&L and GMO will meet with and/or provide information to Staff at  
11 established time intervals following the Merger close regarding (1) Merger integration  
12 implementation, including utility operations and customer experience impacts, (2)  
13 staffing levels, and (3) board of directors reports or presentations regarding Merger  
14 efficiencies; KCP&L and GMO also commit to continue to meet current reporting  
15 obligations (No. 37). For five years following Merger close, Holdco will provide to Staff  
16 and OPC its annual goodwill impairment analysis with supporting materials; after five  
17 years, such materials will be provided upon request (No. 38). Any material Merger-  
18 related financial and accounting changes will be reported to the Commission (No. 39).

19 The Applicants confirm that they will provide Staff and OPC with access to  
20 written information provided to common stock, bond or bond rating analysts, and will  
21 make available to them all books, records and employees relevant to this Commission's  
22 regulatory authority and to verify compliance with the utilities' CAMs and any conditions  
23 ordered by the Commission (Nos. 40 and 41).



1           Holdco, KCP&L and GMO will provide Staff and OPC access to board of  
2 directors' meeting minutes, subject to appropriate objections on relevancy grounds (No.  
3 42). They will retain records supporting their affiliate transactions for at least six years  
4 (No. 43). Finally, the combined Company, KCP&L, and GMO will provide to Staff  
5 detailed journal entries to reflect the Merger within six months of the Merger close, as  
6 well as final journal entries to the Commission no later than 13 months following the  
7 Merger close. The journal entries must show any entries to record or remove any Merger  
8 goodwill or transaction costs (No. 42).

9           In their first general rate cases filed after the closing of the Merger, KCP&L and  
10 GMO will provide direct testimony and supporting information regarding key  
11 employment data (No. 45). KCP&L and GMO will bear reasonable travel expenses if it is  
12 deemed necessary for Staff or OPC employees to travel outside Missouri to access  
13 information relevant to the Merger (No. 46).

14           Additionally, the combined Company, KCP&L and GMO reaffirm prior  
15 commitments made to the Commission to comply with any previously issued orders  
16 applicable to KCP&L, GMO, or their previous owners (No. 47), and Holdco  
17 acknowledges the need to meet the capital requirements of its utility subsidiaries (No. 48)

18 **C. Summary and Conclusion Regarding Commitments and Conditions**

19 **Q: Please summarize your conclusions regarding these Commitments and Conditions.**

20 A: The Applicants have developed a set of Merger Commitments and Conditions that is  
21 responsive to the input of stakeholders in the Initial Transaction proceeding. The  
22 Commitments and Conditions are robust and reflect the Applicants' commitment to our  
23 customers, our service territories, and this Commission.

1 V. APPLICATION FOR VARIANCE

2 Q: Why are the Applicants filing the Application for Variance?

3 A: Upon closing of the Merger, KCP&L and GMO will immediately begin providing goods  
4 and services to, and receiving goods and services from, Westar.<sup>13</sup> These transactions  
5 may be considered “affiliate transactions” under 4 CSR 240-2.015(1)(B). As a result, the  
6 asymmetric pricing standards contained in 18 4 CSR 240-2.015(2) may apply, unless a  
7 variance is granted by the Commission.

8 Q: Please explain the asymmetric pricing standards that you reference?

9 A: The Commission’s affiliate transaction rules at 4 CSR 240-20.015 are premised on  
10 asymmetric pricing to prevent a public utility from subsidizing its non-regulated  
11 affiliates. While goods and services *provided by a public utility* to any affiliate are to be  
12 provided at the *higher* of market value or the cost to the public utility in providing the  
13 goods and services, goods and services *provided by any affiliate* to a public utility are to  
14 be priced at the *lower* of market value or the cost to the public utility in providing the  
15 goods and services to itself. Consequently, the asymmetric pricing standards of 4 CSR  
16 240-20.015, which were designed to prevent cross-subsidization of non-regulated  
17 operations by the affiliated regulated utility, would prevent the combined Company’s  
18 three regulated utility affiliates after the closing of the Merger (KCP&L, GMO and  
19 Westar) from exchanging goods and services at cost.

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<sup>13</sup> Westar is the largest Kansas jurisdictional electric utility and is subject to the jurisdiction of the KCC. Neither Westar nor any of its affiliates is a public utility in Missouri.

1 **Q: What is the significance of such a prohibition on the ability of the regulated affiliates**  
2 **to exchange goods and services at cost?**

3 A: As described above and in the testimony of Mr. Busser, the Merger will result in  
4 significant savings and economies of scale, including efficiencies from the elimination of  
5 redundant corporate and administrative services, all of which will ultimately result in a  
6 lower cost of operations for the combined Company's utility subsidiaries in both  
7 Missouri and Kansas.<sup>14</sup> This will translate into rates for utility services that would be  
8 lower than if GPE and Westar each would continue operating on a stand-alone basis.  
9 Accordingly, the requested variance is needed to enable the attainment of savings post-  
10 Merger that will ultimately benefit customers of the combined Company's utility  
11 subsidiaries in Missouri and Kansas.

12 **Q: What is the specific limited variance that the Joint Applicants are requesting in**  
13 **their Application?**

14 A: The Applicants are requesting a variance from 4 CSR 240-20.015 for good cause in order  
15 to facilitate transactions between the regulated operations of KCP&L, GMO and Westar  
16 by allowing all such transactions to occur at cost except for wholesale power transactions,  
17 which will be based on rates approved by the FERC. The Applicants request that the  
18 variance become effective upon the closing of the Merger which is currently expected to  
19 occur in the first half of 2018.

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<sup>14</sup> Busser Direct Testimony.

1 **Q: Has this Commission previously recognized the attainment of post-merger projected**  
2 **savings as the basis for good cause in approving such a variance request?**

3 A: Yes, a variance from 4 CSR 240-2.015 was granted by the Commission effective when  
4 GPE acquired Aquila (now known as GMO) facilitating similar transactions between  
5 KCP&L and GMO. *See Report and Order* at pp. 183-88, 252-65, In re Joint Application  
6 of Great Plains Energy, Kansas City Power & Light Company, and Aquila, Inc. for  
7 Approval of the Merger of Aquila, Inc. with a Subsidiary of Great Plains Energy  
8 Incorporated, Case No. EM-2007-0374 (July 1, 2008) (“Aquila Order”) In the Aquila  
9 Order, the Commission stated at pages 266-67:

10 The Commission determines that substantial and competent  
11 evidence in the record as a whole supports the conclusions that: (1) the  
12 Commission’s Affiliate Transactions Rule, 4 CSR 240.015 [*sic*], applies  
13 to KCPL and Aquila because these entities meet the Rule’s definition of  
14 “affiliates”; (2) the purpose of the Commission’s Affiliate Transactions  
15 Rule is to prevent cross-subsidization of regulated utility’s non-regulated  
16 operations, not to prevent transactions at cost between two regulated  
17 affiliates; (3) to the extent that the Affiliate Transactions Rule is  
18 applicable to transactions between KCPL and Aquila, a variance shall be  
19 granted; and (4) more specifically, the variance shall be granted for all  
20 transactions except for wholesale power transactions, which would be  
21 based on rates approved by FERC.

22 The Commission finds as good cause for the variance to be the  
23 need to allow the applicants the ability to attain their projected synergy  
24 savings post-merger. The Commission further concludes there is no  
25 detriment, or any direct or indirect effect of the transaction, that tends to  
26 make the power supply less safe or less adequate, or which tends to make  
27 rates less just or less reasonable, that is related to the granting of this  
28 variance in 4 CSR 240.015[*sic*].

29 **Q: Can you briefly summarize the good cause justifying Commission approval?**

30 A: Good cause exists for this variance as it is limited to transactions between Holdco’s  
31 regulated utilities in Missouri and Kansas; the variance is necessary to enable the  
32 attainment of post-Merger savings that will ultimately benefit customers of Holdco’s

1 utility subsidiaries in Missouri and Kansas; and the Merger will not be detrimental to the  
2 public interest in Missouri. In fact, this limited waiver of the affiliate transaction rule  
3 will benefit customers of GPE's Missouri regulated operations, as it will permit full  
4 realization of Merger-related savings which will lead to retail rates paid by Missouri  
5 customers that are lower than they otherwise would be but for the Merger. Additionally,  
6 the commitments related to affiliate transactions proposed by the Applicants further  
7 ensure that this request for a limited variance from this affiliate transactions rule will not  
8 be detrimental to the public interest. The Joint Applicants respectfully submit that these  
9 factors clearly constitute good cause for the granting of the variance request.

## 10 VI. CONCLUSIONS

11 **Q: Please summarize the conclusions of your testimony.**

12 **A:** My testimony supports three main conclusions.

- 13 1) The Merger will result in significant customer benefits through timely bill credits,  
14 the inclusion of initial Merger savings in the cost of service of KCP&L and GMO  
15 in rate cases that will be filed and pending at the time of the expected Order in  
16 this Application, and future rates that will be lower than they would be, including  
17 the delay of future rate cases, absent the Merger;
- 18 2) The comprehensive set of Commitments and Conditions ensures significant  
19 benefits and protections for customers, maintains Commission oversight, and  
20 supports a Commission determination that the Merger is not detrimental to the  
21 public interest; and
- 22 3) The Application for Variance from the Commission's affiliate transaction rules is  
23 necessary to enable the achievement of Merger benefits, is in the best interest of

1 customers, will not result in a detriment to the public interest, is consistent with  
2 Commission precedent, and should be approved.

3 **Q: Does that conclude your Direct Testimony?**

4 **A:** Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of the Application of Great Plains )  
Energy Incorporated for Approval of its Merger ) Docket No. EM-2018-0012  
with Westar Energy, Inc. )

AFFIDAVIT OF DARRIN R. IVES


STATE OF MISSOURI )  
) ss  
COUNTY OF JACKSON )

Darrin R. Ives, being first duly sworn on his oath, states:


1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President – Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Great Plains Energy Incorporated, Kansas City Power & Light Company, and KCP&L Greater Missouri Operations Company consisting of thirty-six (36) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

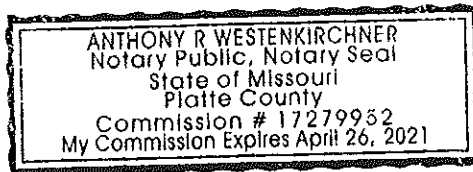
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
Darrin R. Ives

Subscribed and sworn before me this 3<sup>rd</sup> day of August 2017.

  
\_\_\_\_\_  
Notary Public

My commission expires: 4/26/2021



No.	Applicants' Proffered Merger Commitments and Conditions
I. General Conditions	
1	<p><b><u>Headquarters:</u></b> Holdco will maintain its corporate headquarters in Kansas City, Missouri and shall honor all terms and conditions of the existing lease for its headquarters office located at 1200 Main in Kansas City, Missouri, which expires in October 2032.</p> <p>Holdco will also maintain the current Westar Topeka downtown headquarters building at 800-818 South Kansas Avenue in Topeka, Kansas for its Kansas headquarters. Holdco shall honor all terms and conditions of the existing lease for the Westar headquarters building, which expires in April 2023.</p>
2	<p><b><u>Executives:</u></b> Upon the closing of the Merger, Mark Ruelle will become the non-executive chairman of Holdco for a period of three (3) years. Terry Bassham will serve as president and chief executive officer.</p>
3	<p><b><u>Charitable Giving and Community Involvement:</u></b> Holdco will continue charitable giving and community involvement in the Missouri service territory of KCP&amp;L and GMO at levels equal to or greater than KCP&amp;L's and GMO's respective 2015 levels for a minimum of five (5) years following the closing of the Merger.</p>
4	<p><b><u>Low-Income Assistance Programs:</u></b> Holdco will maintain and promote all low-income assistance programs consistent with those in place at all operating utility companies prior to the Merger for at least five (5) years after closing.</p>
5	<p><b><u>Corporate Social Responsibility:</u></b> No later than thirty (30) days after the closing of the Merger, and on or before that calendar day in each of the succeeding nine (9) years, Holdco will provide \$50,000 to each of the following Community Action Agencies:</p> <ul style="list-style-type: none"> <li>• United Services Community Action Agency;</li> <li>• Community Action Partnership of Greater St. Joseph ("CAP St. Joe")<sup>1</sup>;</li> <li>• Community Services, Inc. ("CSI");</li> <li>• West Central Missouri Community Action Agency;</li> </ul>

<sup>1</sup> Applicants understand that CAP St. Joe no longer administers weatherization services and that CSI now administers weatherization services for the area formerly served by CAP St. Joe. Consequently, Applicants would recommend that CSI receive \$100,000 no later than thirty (30) days after the closing of the Merger and on or before that calendar day in each of the succeeding nine (9) years.



No.	Applicants' Proffered Merger Commitments and Conditions
	<ul style="list-style-type: none"> <li>• Missouri Valley Community Action Agency; and</li> <li>• Community Action Partnership of North Central Missouri.</li> </ul> <p>In the event any of these Community Action Agencies cease to exist during this period, Holdco, KCP&amp;L and GMO shall work with OPC and Staff to identify a replacement agency or agencies to recommend for the Commission's approval.</p> <p>It is expressly acknowledged that said funds are not operating costs of KCP&amp;L or GMO but shall be recorded below the line (and not recovered in rates). The funds are meant to be prioritized by the Community Action Agencies for the creation of an additional position(s) within the Community Action Agency structure to better enable the utilization of weatherization dollars or such other appropriate use as deemed effective by the agencies.</p> <p>These funds are provided to each agency with the express purpose of the creation of an additional position(s) to enable further low-income weatherization deployment at a recommended spend level of \$50,000 per year over a ten-year period. Any excess funds can be allocated in the following categories at the agencies' discretion:</p> <ul style="list-style-type: none"> <li>• Weatherization training and certification of agency personnel;</li> <li>• Discretionary funds for health and hazard for on-site units (that may or may not be otherwise passed over);</li> <li>• Outreach efforts;</li> <li>• Utility weatherization account;</li> <li>• Hardship fund for on-bill payments.</li> </ul> <p>Each agency is required to provide documentation to KCP&amp;L and GMO to verify how expenditures were incurred.</p> <p>Community Action Agencies are required to file annual reports with KCP&amp;L and GMO on how funds were expended. KCP&amp;L and GMO shall file a condensed report of the agencies individual annual reports with the Commission, Staff and OPC. Any additional information is left to the agencies' discretion (e.g., estimated additional homes weatherized as a result of the expenditures).</p> <p>KCP&amp;L and GMO commit to an annual in-person meeting with each of the local Community Acton Agencies for the next five years at Holdco's headquarters in Kansas City, Missouri, with extended invitations to (at least) the Commission Staff and OPC to discuss progress to date including Strengths, Weaknesses, Opportunities and Threats to KCP&amp;L's and GMO's low-income population.</p>

No.	Applicants' Proffered Merger Commitments and Conditions
II. Employee Commitments	
6	<b><u>Collective Bargaining Agreements:</u></b> Holdco will honor all existing collective bargaining agreements.
7	<b><u>Employee Compensation and Benefits:</u></b> Holdco will maintain substantially comparable compensation levels and benefits for all employees for two years after the closing of the Merger.
8	<p><b><u>Employee Headcount:</u></b> While Merger-related efficiencies will result in a lower employee headcount over time for the combined organization post-closing compared to the two stand-alone organizations prior to closing, there will be no involuntary severance as a result of the Merger.</p> <p>There will also be no involuntary severance as a result of closing the following generating facilities: Sibley (units 1, 2 and 3), Montrose (units 1, 2 and 3), Lake Road (unit 4/6), Tecumseh (unit 7), Gordon Evans (units 3 and 4) and Murray Gill (units 1 and 2).</p> <p>Holdco will achieve headcount-related efficiencies through normal attrition and other voluntary means over time in a generally balanced way across both states.</p>
III. Financing and Ring-Fencing Conditions	
9	<p><b><u>Board of Directors:</u></b> Upon the closing of the Merger, the size of Holdco board of directors will be mutually determined by GPE and Westar. In addition, as of the closing of the transaction, Holdco's board shall initially be composed of an equal number of directors designated by each of GPE and Westar. The initial board shall have substantial and longstanding business and personal connections to the Kansas and Missouri region and be composed of a majority of independent directors as defined by the New York Stock Exchange. Terry Bassham shall be a member of the board as a GPE nominee and Mark Ruelle shall be the non-executive Chairman of the board as a Westar nominee, with Mr. Ruelle serving as such for a term of three years. The initial lead independent director of Holdco will also be designated by Westar, with reasonable consultation with GPE.</p> <p>In addition, to the above, as of the closing, the board of directors will initially have five (5) standing board committees. Those committees will be composed of an equal number of directors designated by each of GPE and Westar. The initial chairpersons for three (3) of the five (5) standing committees shall be designated by GPE and the chairpersons for two (2) of the five (5) standing committees shall be designated by Westar.</p>

No.	Applicants' Proffered Merger Commitments and Conditions
10	<p><b><u>Financial Integrity:</u></b> Holdco will exercise management prudence to maintain the financial integrity of GMO and KCP&amp;L in all respects, including matters relating to dividends, capital investments and other financial actions in an effort to maintain investment grade credit ratings.</p>
11	<p><b><u>Capital structures:</u></b> Holdco, KCP&amp;L, GMO and Westar shall maintain separate capital structures to finance the respective activities and operations of each entity.</p> <p>Holdco, KCP&amp;L, GMO and Westar shall maintain separate debt. Holdco, KCP&amp;L, GMO and Westar shall also maintain separate preferred stock, if any.</p> <p>KCP&amp;L and GMO shall use reasonable and prudent investment grade capital structures. KCP&amp;L and GMO will be provided with appropriate amounts of equity from Holdco to maintain such capital structures.</p> <p>Holdco shall maintain consolidated debt of no more than 65 percent of total consolidated capitalization, and KCP&amp;L's and GMO's debt shall be maintained at no more than 65 percent.</p> <p>Holdco commits that GMO and KCP&amp;L will not make any dividend payments to the parent company to the extent that the payment would result in an increase in either utility's debt level above 65 percent of its total capitalization, unless the Commission authorizes otherwise.</p>
12	<p><b><u>Separate Debt:</u></b> Holdco, KCP&amp;L, GMO and Westar shall maintain separate debt so that Westar will not be liable (directly or through guarantees, cross-defaults or other provisions) for the debts of Holdco, KCP&amp;L, or GMO or other subsidiaries of Holdco (excluding Westar and subsidiaries of Westar), and KCP&amp;L, GMO and other subsidiaries of Holdco (excluding Westar and subsidiaries of Westar) will not be liable (directly or through guarantees, cross-defaults or other provisions) for the debts of Westar.</p> <p>Holdco, KCP&amp;L and GMO shall also maintain adequate capacity under revolving credit facilities and commercial paper, if any, which capacity may be administered on a combined basis provided that capacity maintained for KCP&amp;L and GMO shall be exclusively dedicated to the benefit of KCP&amp;L and GMO, pricing is separated by entity, and that (i) Westar neither guarantees the debt of Holdco, KCP&amp;L, GMO or other subsidiaries of GPE (excluding Westar and subsidiaries of Westar) nor is subject to a cross-default for such debt and (ii) Holdco, KCP&amp;L, GMO and other subsidiaries of GPE (excluding Westar and subsidiaries of Westar) neither guarantee the debt of Westar nor are subject to a cross-default for such debt.</p>

No.	Applicants' Proffered Merger Commitments and Conditions
13	<p><b><u>Separation of Assets:</u></b> Holdco commits that KCP&amp;L and GMO will not commingle their assets with the assets of any other person or entity, except as allowed under the Commission's Affiliate Transaction Rule or other Commission order.</p> <p>Holdco commits that KCP&amp;L, GMO and Westar will conduct business as separate legal entities and shall hold all of their assets in their own legal entity name unless otherwise authorized by Commission order.</p> <p>Holdco, KCP&amp;L, GMO and Westar affirm that the present legal entity structure that separates their regulated business operations from their unregulated business operations shall be maintained unless express Commission approval is sought to alter any such structure.</p> <p>Holdco, KCP&amp;L, GMO and Westar further commit that proper accounting procedures will be employed to protect against cross-subsidization of Holdco's, KCP&amp;L's, GMO's and Westar's non-regulated businesses, or Holdco's other regulated businesses.</p>
14	<p><b><u>Other Separation:</u></b> Holdco, KCP&amp;L and GMO shall not grant or permit to exist any encumbrance, claim, security interest, pledge or other right in their respective stock in favor of any entity or person unless otherwise authorized by the Commission.</p>
15	<p><b><u>Credit Rating:</u></b> Moody's upgraded GPE's credit rating to Baa2 with a stable outlook on July 19, 2017. Standard &amp; Poor's ("S&amp;P") has opined that the Merger is credit-positive and on July 11, 2017 affirmed the ratings and revised the outlook to positive for Westar and GPE and their utility subsidiaries. GPE, KCP&amp;L and GMO shall maintain separate issuer (i.e., Corporate Credit Ratings) and separate issue ratings for debt that is publicly placed.</p>
16	<p><b><u>Credit Rating Downgrade:</u></b> If S&amp;P or Moody's downgrade the Corporate Credit Rating or senior secured or unsecured debt issue rating of KCP&amp;L or GMO (the "Impacted Utility") to below investment grade (i.e., below BBB- or Baa3), the "Impacted Utility" commits to file:</p> <ol style="list-style-type: none"> <li data-bbox="210 1138 2011 1243">i. Notice with the Commission within five (5) business days of such downgrade that includes specification of the affected credit rating(s), the pre- and post-downgrade credit ratings of each affected credit rating, and a full explanation of why the credit rating agency or agencies downgraded each of the affected credit ratings;</li> <li data-bbox="210 1284 2011 1422">ii. A filing with the Commission within sixty (60) days which shall include the following: <ul style="list-style-type: none"> <li data-bbox="315 1357 2011 1422">• Actions the Impacted Utility may take to raise its S&amp;P or Moody's credit rating to BBB- or Baa3, respectively, including the costs and benefits of such actions and any plan the Impacted Utility may have to undertake such actions. If the costs of returning</li> </ul> </li> </ol>

No.	Applicants' Proffered Merger Commitments and Conditions
	<p>GMO and/or KCP&amp;L to investment grade are above the benefits of such actions, GMO and/or KCP&amp;L shall be required to show and explain why it is not necessary, or cost-effective, to take such actions and how the utility(s) can continue to provide efficient and sufficient service in Missouri under such circumstances;</p> <ul style="list-style-type: none"> <li>• The change on the capital costs of the Impacted Utility due to its S&amp;P or Moody's credit rating being below BBB- or Baa3, respectively; and</li> <li>• Documentation detailing how the Impacted Utility will not request from its Missouri customers, directly or indirectly, any higher capital costs incurred due to a downgrade of its S&amp;P or Moody's credit rating below BBB- or Baa3, respectively;</li> </ul> <p>iii. File with the Commission, every forty-five (45) days thereafter until the Impacted Utility has regained its S&amp;P or Moody's credit rating of BBB- or Baa3, respectively or above, an updated status report with respect to the items required in subparagraph ii immediately above.</p> <p>iv. If the Commission determines that the decline of the Impacted Utility's S&amp;P or Moody's credit rating to a level below BBB- or Baa3, respectively, has caused its quality of service to decline, then the Impacted Utility shall be required to file a plan with the Commission detailing the steps that will be taken to restore service quality levels that existed prior to the ratings decline.</p> <p>v. In the event KCP&amp;L's or GMO's affiliation (ownership or otherwise) with Holdco or any of Holdco's affiliates is a primary factor for KCP&amp;L's or GMO's S&amp;P or Moody's Corporate credit rating to be downgraded to below BBB- or Baa3, respectively, KCP&amp;L and/or GMO shall promptly undertake additional legal and structural separation from the affiliate(s) causing the downgrade. Notwithstanding Commitment No. 11's limitation on payment of dividends, the Impacted Utility shall not pay a common dividend without Commission approval or until the Impacted Utility's S&amp;P or Moody's credit rating has been restored to BBB- or Baa3, respectively.</p> <p>vi. If KCP&amp;L's or GMO's respective S&amp;P or Moody's credit rating declines below BBB- or Baa3, respectively, the Impacted Utility shall file with the Commission within 15 days a comprehensive risk management plan setting forth committed actions assuring the Impacted Utility's access to and cost of capital will not be further impaired. The plan shall include a non-consolidation opinion if required by S&amp;P or Moody's.</p>

No.	Applicants' Proffered Merger Commitments and Conditions
17	<p><b><u>Cost of Capital:</u></b> Holdco commits that future cost of service and rates of KCP&amp;L and GMO shall not be adversely impacted on an overall basis as a result of the Merger and that future cost of service and rates will be set commensurate with financial and business risks attendant to their individual regulated utility operations. Neither KCP&amp;L nor GMO shall seek an increase to their cost of capital as a result of (i.e., arising from or related to) the Merger or KCP&amp;L's and GMO's ongoing affiliation with Holdco and its affiliates after the Merger.</p> <p>The return on equity capital ("ROE") as reflected in GMO's and KCP&amp;L's rates will not be adversely affected as a result of the Merger. Holdco agrees the ROE shall be determined in future rate cases, consistent with applicable law, regulations and practices of the Commission.</p> <p>The burden of proof that any increase to the cost of capital is not a result of the Merger shall be borne by KCP&amp;L or GMO. Any net increase in the cost of capital that KCP&amp;L or GMO seeks shall be supported by documentation that: (a) the increases are a result of factors not associated with the Merger or the post-Merger operations of Holdco or its non-KCP&amp;L and non-GMO affiliates; (b) the increases are not a result of changes in business, market, economic or other conditions caused by the Merger or the post-Merger operations of Holdco or its non-KCP&amp;L and non-GMO affiliates; and (c) the increases are not a result of changes in the risk profile of KCP&amp;L or GMO caused by the Merger or the post-Merger operations of Holdco or its non-KCP&amp;L and non-GMO affiliates. The provisions of this section are intended to recognize the Commission's authority to consider, in appropriate proceedings, whether this Merger or the post-Merger operations of Holdco or its non-KCP&amp;L and non-GMO affiliates have resulted in capital cost increases for KCP&amp;L or GMO.</p> <p>Nothing in this condition shall restrict the Commission from disallowing such capital cost increases from recovery in KCP&amp;L or GMO's rates.</p>
<b>IV. Ratemaking, Accounting, and Related Conditions</b>	
18	<p><b><u>Upfront Bill Credits:</u></b> Holdco agrees that its electric utility subsidiaries will provide all retail electric customers with one-time bill credits totaling \$50 million within 120 days of the closing of the Merger. This amount shall be allocated among Applicants' electric rate jurisdictions in both Kansas and Missouri on the basis of retail energy sales for the most recent full twelve calendar month period prior to the closing of the Merger. The amount so allocated shall be assigned to each retail electric customer within the applicable Missouri electric rate jurisdiction based upon methodology approved by the Commission.</p>
19	<p><b><u>Transition Costs:</u></b> Neither GMO nor KCP&amp;L will ever include in cost of service, and shall never seek to recover in rates, any transition costs related to this Merger that are in excess of the benefits that these transition costs are intended to attain.</p> <p>Transition costs are those costs incurred to integrate Westar and GPE, and include integration planning, execution, and "costs to achieve."</p>

No.	Applicants' Proffered Merger Commitments and Conditions
	<p>Non-capital transition costs can be ongoing costs or one-time costs. KCP&amp;L's and GMO's non-capital transition costs, which shall include but not be limited to severance payments made to employees other than those required to be made under change of control agreements, can be deferred on the books of either KCP&amp;L or GMO to be considered for recovery in KCP&amp;L and GMO future rate cases. If subsequent rate recovery is sought, KCP&amp;L and GMO will have the burden of proof to clearly identify where all transition costs are recorded and of proving that the recoveries of any transition costs are just and reasonable as their incurrence facilitated the ability to provide benefits in excess of those costs to its Missouri customers. Such benefits may be the result of avoiding or shifting costs and activities.</p> <p>KCP&amp;L and GMO shall be required to attest in all future rate proceedings before the Commission that no transition costs in excess of their corresponding benefits are included in cost of service and rates, and to provide a complete explanation of the procedures used to ensure that transition costs, in excess of their corresponding benefits, are not included in cost of service or rates. This commitment shall be required until all transition costs are fully amortized.</p> <p>KCP&amp;L and/or GMO, as applicable, shall bear the burden of proving and fully documenting that any transition costs for which rate recovery is sought have produced net benefits. Such benefits may be the result of avoiding or shifting costs and activities.</p>
20	<p><b><u>Goodwill:</u></b> Goodwill associated with the Merger is the difference between the fair market value of GPE's assets and the exchange value of GPE's stock upon the closing of the Merger (referred to herein as "Merger Goodwill") and will be maintained on the books of Holdco. The amount of any such Merger Goodwill shall not be included in the revenue requirement of KCP&amp;L or GMO in future Missouri rate cases. Neither KCP&amp;L nor GMO will seek recovery through recognition in retail rates and revenue requirement in future rate cases of any such Merger Goodwill.</p>
21	<p><b><u>Goodwill Impairment:</u></b> Customers shall be held harmless from the risk or realization of any Merger Goodwill impairment.</p> <p>Holdco does not expect, and shall take prudent actions to avoid, Merger Goodwill from negatively affecting KCP&amp;L's or GMO's cost of capital.</p> <p>If such Merger Goodwill becomes impaired and such impairment negatively affects KCP&amp;L's or GMO's cost of capital or credit ratings, all costs associated with the decline in the Impacted Utility's credit quality specifically attributed to the Merger Goodwill impairment, considering all other capital cost effects of the Merger and the impairment, shall be excluded from the determination of the Impacted Utility's rates.</p>

No.	Applicants' Proffered Merger Commitments and Conditions
22	<p><b><u>Transaction Costs:</u></b> Transaction costs include, but are not limited to, those costs relating to obtaining regulatory approvals, development of transaction documents, investment banking costs, costs related to raising equity incurred prior to the close of the Merger, severance payments required to be made by change of control agreements, internal labor and third party consultant costs incurred in performing any types of analysis or preparation (financial, tax, investment, accounting, legal, market, regulatory, etc.) to evaluate the potential sale or transfer of ownership, prepare for bid solicitation, analyze bids, conduct due diligence, compliance with existing contracts including change in control provisions, and compliance with any regulatory conditions, closing, and communication costs regarding the ownership change with customers and employees.</p> <p>GMO and KCP&amp;L commit that they will not seek recovery through recognition in retail rates of transaction costs, that they shall have the burden of proof to clearly identify where all transaction costs related to this Merger are recorded and shall be required to attest in all future rate proceedings before the Commission that none of these costs are included in cost of service and rates, and to provide a complete explanation of the procedures used to ensure that these transaction costs are not included in cost of service or rates. This commitment shall be required until transaction costs of this Merger are no longer on Holdco's books in a test year for KCP&amp;L and/or Westar, as applicable</p> <p>Transaction costs shall be recorded on Holdco's books.</p>
23	<p><b><u>Fuel and Purchased Power Costs:</u></b> KCP&amp;L's and GMO's fuel and purchased power costs shall not be adversely impacted as a result of the Merger.</p>
24	<p><b><u>Retail Rates:</u></b> Holdco commits that retail rates for KCP&amp;L and GMO customers shall not increase as a result of the Merger.</p>
25	<p><b><u>Future Rate Cases:</u></b> Holdco commits that in future rate case proceedings, KCP&amp;L and GMO will support their assurances provided in this document with appropriate analysis, testimony, and necessary journal entries fully clarifying and explaining how any such determinations were made.</p>
<p>V. Affiliate Transactions and Cost Allocations Manual (CAM) Conditions</p>	
26	<p><b><u>Affiliate Transaction Rule:</u></b> KCP&amp;L and GMO will be operated after the Merger in compliance with the Commission's Affiliate Transaction Rule, as defined in 4 CSR 240-20.015(10) and 4 CSR 240-80.015(10).</p>



No.	Applicants' Proffered Merger Commitments and Conditions
27	<p><b><u>Information on Affiliate Transactions:</u></b> Holdco and its subsidiaries commit that all information related to an affiliate transaction consistent with 4 CSR 240-20.015(5)(A)(1)-(2) and 4 CSR 240-80-015(5)(A)(1)-(2) charged to KCP&amp;L and/or GMO will be treated in the same manner as if that information is under the control of either KCP&amp;L or GMO.</p>
28	<p><b><u>No Preferential Treatment of Affiliates:</u></b> Except as permitted by any variance granted by the Commission, neither KCP&amp;L nor GMO will provide preferential service, information, or treatment to an affiliated entity over another party at any other time, consistent with 4 CSR 240-015(2) and 4 CSR 240-80.015(2).</p>
29	<p><b><u>Intercompany Charges:</u></b> Holdco and its subsidiaries may seek recovery of intercompany charges to regulated utility affiliates in their first general rate proceedings following the closing of the Merger at levels equal to the lesser of actual costs or the costs allowed related to such functions in the cost of service of their most recent rate case prior to the closing of the Merger, as adjusted for inflation measured by the Gross Domestic Product Price Index. Billings for common-use assets shall be permitted consistent with GPE's current practices.</p> <p>Holdco and its subsidiaries shall have the burden of proof to demonstrate billings are prudent, in the usual course of business, and consistent with past practice.</p>
30	<p><b><u>Separate Books and Records Available to Staff and Commission:</u></b> Holdco shall maintain separate books and records, systems of accounts, financial statements and bank accounts for GMO and KCP&amp;L. The records and books of GMO and KCP&amp;L will be maintained under the FERC Uniform System of Accounts ("USOA") applicable to investor-owned jurisdictional electric utilities, as adopted by the Commission.</p> <p>The financial books and records of Holdco's regulated utility affiliates will be made available to the Commission and its Staff.</p> <p>The records and books of any affiliate for which any direct or indirect charge is made to GMO and KCP&amp;L, and included in said utilities' cost of service and rates on either a direct or indirect basis, will be made available, upon request, to the Commission and its Staff.</p> <p>Holdco, KCP&amp;L and GMO shall facilitate access of the Commission Staff to its external auditors and endeavor to provide the Commission and its Staff with timely access to any relevant external audit workpapers and/or reports.</p> <p>Holdco, KCP&amp;L and GMO will maintain adequate records to support, demonstrate the reasonableness of, and enable the audit and examination of all centralized corporate costs that are allocated to or directly charged to KCP&amp;L or GMO. Nothing in this condition shall be deemed a waiver of any rights of Holdco, KCP&amp;L or GMO to seek protection of the information or to object, for purposes of submitting such</p>

No.	Applicants' Proffered Merger Commitments and Conditions
	information as evidence in any evidentiary proceeding, to the relevancy or use of such information by any party.
31	<p><b><i>Independent Third Party Management Audit of Affiliate Transactions and Corporate Cost Allocations:</i></b> Holdco, KCP&amp;L and GMO shall agree to an independent third party management audit of new holding company, KCP&amp;L and GMO corporate cost allocations and affiliate transaction protocols. A committee, which shall be comprised of an equal number of Staff, OPC and Applicant representatives, shall develop a Request for Proposal ("RFP") with input from the Applicants on the scope of work, and this RFP shall be submitted to the Commission for approval within six months after the closing of the Merger. The selection of a successful bidder shall be conducted by the same committee and shall be made by unanimous vote. If the vote is not unanimous, the Commission will determine the successful bidder. Upon completion, the report of the audit shall be filed with the Commission.</p> <ul style="list-style-type: none"> <li>a. The audit will examine new holding company, KCP&amp;L and GMO's corporate cost allocations and affiliate transaction protocols. The audit shall be designed to assess compliance with the Commission's Affiliate Transactions Rule (4 CSR 240-20.015) as well as the appropriateness of the allocation of corporate costs among Holdco, KCP&amp;L, GMO and affiliates. Holdco, KCP&amp;L and GMO shall cooperate fully with the auditor by providing all information required to complete the audit.</li> <li>b. The audit shall express an independent opinion on the degree and extent of KCP&amp;L and GMO's compliance with the Commission's Affiliate Transactions Rule (4 CSR 240-20.015) and may provide recommendations, if appropriate, regarding procedures and methodologies used by Holdco, KCP&amp;L and GMO in allocating corporate costs and complying with the Commission's Affiliate Transactions Rule (4 CSR 240-20.015).</li> <li>c. It is expressly acknowledged that Holdco, KCP&amp;L and GMO shall collectively provide \$500,000, funded below the line (and not recovered in rates), for purposes of funding the independent third party management audit. Any additional expense beyond \$500,000, required by the Commission, will be split 50/50 between ratepayers and shareholders.</li> <li>d. Any cost in excess of \$500,000 shall be deferred to account 182.3 (other regulatory assets) and recovered through amortization, subject to the 50/50 split provided immediately above, in retail rates and cost of service in the first KCP&amp;L and GMO general rate cases subsequent to the completion of the audit.</li> </ul>
32	As required by Commission rule (4 CSR 240-20.015(2)(C)) and clarified by the Commission's decision in Case No. EC-2015-0309, KCP&L and GMO agree to not make available, sell or transfer specific Missouri customer information including, but not limited to: customer names, addresses, telephone numbers, credit or debit card information, social security numbers, income and/or other customer information, to affiliated

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	or unaffiliated entities without prior informed consent of the Missouri customer, authorization of the Commission or as otherwise provided by law, other than as necessary to provide services to and in support of their regulated operations.
33	<p><b><i>Cost Allocation Manual:</i></b> KCP&amp;L and GMO agree to meet with Staff and OPC no later than sixty (60) days after the closing of the Merger to provide a description of its expected impact on the allocation of costs among Holdco's utility and non-utility subsidiaries as well as a description of its expected impact on the cost allocation manuals ("CAMs") of KCP&amp;L and GMO. No later than six (6) months after the closing of the Merger but no less than two (2) months before the filing of a general rate case for either KCP&amp;L or GMO, whichever occurs first, KCP&amp;L and GMO agree to file updates to their existing CAMs reflecting process and recordkeeping changes necessitated by the Merger.</p>
VI. Quality of Service Conditions	
34	<p><b><i>Customer Service and Operational Levels:</i></b> KCP&amp;L and GMO will meet or exceed the customer service and operational levels currently provided to their Missouri retail customers.</p> <p>After the closing of the Merger, KCP&amp;L and GMO shall continue providing Staff, on a monthly basis, data on contact center service quality, including abandoned call rate, average speed of answer, service level (percentage of calls answered within 20 seconds), the number of calls offered utilization of call deferral technology (such as "Virtual Hold"). KCP&amp;L and GMO currently provide such data on a monthly basis and will continue this practice after closing. The contact center service quality information that KCP&amp;L and GMO will provide after closing shall be consistent with the information that has been provided pursuant to agreements in Case Nos. EM-2007-0374, EO-2005-0329 and ER-2004-0034. To the extent that handling of calls by KCP&amp;L or GMO customers is either outsourced (meaning that calls of KCP&amp;L or GMO customers are being handled by personnel who are not under the direct supervision and management of KCP&amp;L or GMO employees) or performed by contingent labor (meaning personnel who are not directly employed by Holdco, KCP&amp;L or GMO but who are subject to the direct supervision and management of KCP&amp;L or GMO employees) to a greater degree than occurred prior to the closing of the Merger, KCP&amp;L and GMO shall advise Staff of such arrangements in advance of implementation, provide the same contact center service quality information to Staff and, in addition, shall include data on the turnover rate (i.e., information related to on-the-job tenure) of such contingent labor contact center personnel in the monthly contact center service quality reports.</p> <p>After the closing of the Merger, KCP&amp;L and GMO shall continue providing Staff, on a monthly basis, with data on service reliability, including system average interruption frequency index ("SAIFI"), system average interruption duration index ("SAIDI"), customer average interruption frequency index ("CAIFI") and customer average interruption duration index ("CAIDI"). The service reliability information KCP&amp;L and GMO will provide after closing shall be consistent with the information that has been provided pursuant to agreements in Case Nos. EM-2007-0374, EO-2005-0329 and ER-2004-0034.</p>

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	<p>After the closing of the Merger, KCP&amp;L and GMO shall, for a period of two years after closing, provide Staff, on a twice-yearly basis, responses to all customer survey questions dealing with customer satisfaction and experience conducted on KCP&amp;L and GMO's behalf as well as the contracts pursuant to which such surveys are performed by entities such as, but not limited to, JD Power and Associates, Wilson Perkins Allen, Hyper-Quality, Profile Marketing Research. Such information shall be provided no later than 45 days after the conclusion of the relevant six-month period and shall commence the day the Merger closes. During the two-year period after closing, KCP&amp;L and GMO will provide such survey results and information pertinent to the conduct of the surveys at the request of Staff. Upon the conclusion of the two-year period, after closing of the Merger, any such survey information would be available for Staff review through the rate case discovery process.</p>
35	<p><b><u>Continued Meetings with Staff Regarding Customer Service:</u></b> KCP&amp;L and GMO will continue to meet with Staff Consumer and Management Analysis personnel on a periodic basis, such as quarterly or as Staff deems necessary, after the close of the Merger, to review contact center and other service quality performance. Staff may request additional periodic meetings with KCP&amp;L and GMO personnel to address customer service operating procedures and the level of service being provided to Missouri retail customers.</p>
36	<p><b><u>Customer Service Management Organizational Charts:</u></b> Within thirty (30) days after the closing of the Merger, KCP&amp;L and GMO shall provide to Staff a current organizational chart, illustrating the positions and names of management employees that have customer service responsibilities, and this information shall be provided on a monthly basis thereafter.</p>
<p>VII. Reporting and Access to Records</p>	
37	<p><b><u>Merger Integration:</u></b> To keep Staff and the Commission apprised of the status of integration implementation after closing:</p> <p style="padding-left: 40px;">a. KCP&amp;L and GMO shall meet with Staff no later than 60 days after closing, and on a quarterly basis thereafter for a period of one year after closing, to provide an update on the status of integration implementation, including discussion of progress on organizational changes and consolidation of processes affecting the customer experience, including but not limited to: contact center operations, customer information and billing, remittance processing, credit and collections, and service order processes. The frequency of such update meetings shall be reduced to every six months during the second year after closing of the Merger and shall cease thereafter, unless otherwise ordered by the Commission. Regardless of the frequency of such meetings, KCP&amp;L and GMO agree to continue their practice of promptly advising Staff in the event of material operational irregularities – whether arising from systems, training, process change or any other cause – that may affect the customer experience. Additionally, for a period of no less than two years, unless otherwise ordered by the Commission, KCP&amp;L and GMO shall, on a twice-yearly basis unless otherwise ordered by the Commission, appear and provide an update of the status of integration</p>

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	<p>implementation, providing the Commissioners an opportunity to ask questions about the status of integration implementation.</p> <p>b. KCP&amp;L and GMO shall, on a quarterly basis continuing for two years after closing, provide Staff, no later than 45 days after the conclusion of the relevant quarter, with data on employee headcounts (full- and part-time, including contingent labor retained through employment agencies) for Holdco, KCP&amp;L, GMO and Westar as well as a complete listing of functions and/or positions that have been either outsourced (meaning that work is being performed on behalf of Holdco, KCP&amp;L, GMO and/or Westar that is not under the direct management and supervision of Holdco, KCP&amp;L, GMO or Westar employees) or converted to contingent labor as a result of the integration of Holdco, KCP&amp;L, GMO and Westar. To the extent that job positions at Holdco, KCP&amp;L, GMO or Westar have been eliminated, re-classified or transferred between Holdco, KCP&amp;L, GMO or Westar, such eliminations, re-classifications or transfers shall be identified.</p> <p>c. KCP&amp;L and GMO shall, for a period of two years after closing, provide Staff any reports or presentations made to Holdco's board of directors regarding efficiencies attained as a result of the Merger. Such reports or presentations shall be provided to Staff within 30 days after being provided to Holdco's board of directors.</p> <p>d. The reporting and data provision agreed to herein by Holdco, KCP&amp;L and GMO does not change any reporting obligations of GPE (which shall apply to Holdco post-merger), KCP&amp;L or GMO that existed prior to the approval of this Merger.</p>
38	<p><b><u>Goodwill Impairment Analysis:</u></b> For the first five (5) full calendar years after the closing of the Merger, Holdco shall provide Staff and OPC its annual goodwill impairment analysis in a format that includes spreadsheets in their original format with formulas and links to other spreadsheets intact and any printed materials within thirty (30) days after the filing of Holdco's Form 10-Q for the period in which the analysis is performed, as well as all supporting documentation. Thereafter, this analysis will be made available to Staff and OPC upon request.</p>
39	<p><b><u>Accounting Changes:</u></b> Holdco, KCP&amp;L and Westar commit that any material Merger-related financial and accounting changes must be reported to the Commission.</p>
40	<p><b><u>Access to Materials Provided to Ratings Analysts:</u></b> KCP&amp;L and GMO shall provide Staff and OPC with access, upon reasonable written notice during working hours and subject to appropriate confidentiality and discovery procedures, to all written information provided to common stock, bond or bond rating analysts which directly or indirectly pertains to KCP&amp;L or GMO or any affiliate that exercises influence or control over KCP&amp;L, GMO or Holdco. Such information includes, but is not limited to, common stock analyst and bond rating analyst reports. For purposes of this condition, "written" information includes, but is not limited to, any written and printed material, audio and video tapes, computer disks, and electronically stored information. Nothing in this condition shall be deemed a waiver of any entity's right to seek protection of the</p>

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	information or to object, for purposes of submitting such information as evidence in any evidentiary proceeding, to the relevancy or use of such information by any party.
41	<p><b><u>Access to Materials Regarding CAM Compliance:</u></b> Holdco, KCP&amp;L and GMO shall make available to Staff and OPC, upon written notice during normal working hours and subject to appropriate confidentiality and discovery procedures, all books, records and employees as may be reasonably required to verify compliance with KCP&amp;L's and GMO's CAM and any conditions ordered by this Commission. Holdco, KCP&amp;L and GMO shall also provide Staff and OPC any other such information (including access to employees) relevant to the Commission's ratemaking, financing, safety, quality of service and other regulatory authority over KCP&amp;L or GMO; provided that any entity producing records or personnel shall have the right to object on any basis under applicable law and Commission rules, excluding any objection that such records and personnel of affiliates (a) are not within the possession or control of either KCP&amp;L or GMO or (b) are either not relevant or are not subject to, the Commission's jurisdiction and statutory authority by virtue of, or as a result of, the implementation of the proposed Merger.</p>
42	<p><b><u>Access to Board of Director Materials:</u></b> KCP&amp;L and GMO shall provide Staff and OPC access, upon reasonable request, the complete Holdco board of directors' meeting minutes, including all agendas and related information distributed in advance of the meeting, presentations and handouts, provided that privileged information shall continue to be subject to protection from disclosure and KCP&amp;L and GMO shall continue to have the right to object to the provision of such information on relevancy grounds.</p>
43	<p><b><u>Retention Period for Affiliate Transaction Records:</u></b> KCP&amp;L and GMO will maintain records supporting their affiliated transactions for at least six (6) years.</p>
44	<p><b><u>Journal Entries:</u></b> Within six months of the close of the Merger, Holdco, KCP&amp;L and GMO will provide to the Commission Staff detailed journal entries recorded to reflect the Merger.</p> <p>Holdco, KCP&amp;L and GMO shall also provide the final detailed journal entries to be filed with the Commission no later than 13 months after the date of the closing. These entries must show, and shall include but not be limited to, the entries made to record or remove from all utility accounts any acquisition premium costs or transaction costs.</p>
45	<p><b><u>Employment in the State of Missouri:</u></b> In their first general rate cases filed after the closing of the Merger, KCP&amp;L and GMO (as applicable) shall provide direct testimony explaining the employment metrics related to the number of full time employees and the average turnover rate along with any material changes to those metrics since the closing of the Merger. This direct testimony shall include a complete description,</p>

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	supported by schedules or work papers as appropriate, of the Merger-related labor and all labor-related efficiency savings that KCP&L and GMO (as applicable) propose to flow through to the benefit of customers in the form of rates that are lower than they would be in the absence of the Merger.
46	<b><u>Staff or OPC Travel Outside Missouri:</u></b> Should it be deemed necessary for Staff or OPC employees to travel to locations outside of the State of Missouri to examine any records deemed relevant to the subject matter at hand, KCP&L or GMO shall bear all reasonable expense incurred by Staff or OPC, provided, however, that before any such expense shall be incurred by Staff or OPC, KCP&L or GMO shall be given reasonable notice to produce the records requested for inspection or examination at the office of the Commission at Jefferson City, Missouri or at KCP&L and GMO's offices in Kansas City, Missouri, or at such other point in Missouri, as may be mutually agreed, in which case KCP&L or GMO shall make available at that place, at that time, a person(s) who is acquainted with the records.
<b>VIII. Other Parent Company Conditions</b>	
47	<b><u>Prior Commitments of, and Orders Applicable to, GPE, KCP&amp;L and GMO:</u></b> Holdco, KCP&L and GMO commit to reaffirm and honor any prior commitments made by GPE, KCP&L or GMO to the Commission to comply with any previously issued Commission orders applicable to KCP&L or GMO or their previous owners except as otherwise provided for herein.
48	<b><u>Future Access to Capital:</u></b> Holdco acknowledges that its utility subsidiaries need significant amounts of capital to invest in energy supply and delivery infrastructure (including, but not limited to, renewable energy resources and other environmental sustainability initiatives such as energy efficiency and demand response programs), that meeting these capital requirements of its utility subsidiaries will be considered a high priority by Holdco's board of directors and executive management, and that Holdco's access to capital post-transaction will permit it and its utility subsidiaries to meet their statutory obligation to provide safe and adequate service.